



**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**

(An Enterprise Fund of the State of Hawaii)

Single Audit Reports

Year ended June 30, 2013

(With Independent Auditors' Reports Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)

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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Auditor
State of Hawaii:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Airports Division's basic financial statements, and have issued our report thereon dated December 10, 2013.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Airports Division's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airports Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airports Division's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airports Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not



an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airports Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airports Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Honolulu, Hawaii
March 17, 2014



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards as Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Auditor
State of Hawaii:

Report on Compliance for Each Major Federal Program

We have audited the Airports Division, Department of Transportation, State of Hawaii (an enterprise fund of the State of Hawaii) (the Airports Division), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Airports Division's major federal programs for the year ended June 30, 2013. The Airports Division's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Airports Division's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airports Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Airports Division's compliance.

Opinion on Each Major Federal Program

In our opinion, the Airports Division complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major federal program is not modified with respect to these matters.

The Airports Division's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Airports Division's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Airports Division is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airports Division's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airports Division's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Airports Division as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Airports Division's basic financial statements. We issued our report thereon dated December 10, 2013, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Honolulu, Hawaii
March 17, 2014

DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII
(An Enterprise Fund of the State of Hawaii)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

<u>Federal grantor/program title/grant number</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
U.S. Department of Transportation:		
Federal Aviation Administration – Airport Improvement Program:	20.106	
3-15-0000-04		\$ 297,825
3-15-0001-07		2,627
3-15-0001-08		51,067
3-15-0001-09		492,636
3-15-0004-32		3,724
3-15-0004-33		8,728
3-15-0004-36		299,874
3-15-0004-38		417,527
3-15-0004-39		141,607
3-15-0004-40		46,534
3-15-0004-41		1,801,371
3-15-0004-42		4,445,315
3-15-0004-43		473
3-15-0005-98		2,251,695
3-15-0005-100		78,857
3-15-0005-101		41,268
3-15-0005-102		27,198
3-15-0005-103		101,364
3-15-0005-104		786,714
3-15-0005-105		98,811
3-15-0005-106		750
3-15-0005-109		200,492
3-15-0005-110		372
3-15-0005-112		344,090
3-15-0006-45		187,597
3-15-0006-47		269,068
3-15-0006-48		435,252
3-15-0008-32		298,890
3-15-0008-33		117,640
3-15-0008-34		1,821,311
3-15-0008-35		2,021,285
3-15-0008-36		3,321,870
3-15-0009-07		14,672
3-15-0010-07		36,287
3-15-0011-15		119,618
3-15-0011-16		25,321
3-15-0011-17		122,936
3-15-0012-12		1,281,728
3-15-0012-14		280,212
3-15-0013-41		398,557
3-15-0013-42		462,225
3-15-0013-43		185,475
3-15-0014-12		426,085
3-15-0014-13		1,779,680

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**
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Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

<u>Federal grantor/program title/grant number</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
DTFA08-10-C-50668		\$ 550,407
Total CFDA 20.106		\$ 26,097,035
U.S. Department of Homeland Security:		
Law Enforcement Officer Reimbursement Agreement Program:	97.090	
HSTS0208HSLR078		\$ 236,799
HSTS0213HSLR097		690,313
HSTS0208HSLR321		80,713
HSTS0213HSLR104		184,920
HSTS0208HSLR087		27,878
HSTS0213HSLR100		86,580
HSTS0208HSLR079		39,034
HSTS0213HSLR109		98,450
HSTS0208HSLR082		31,951
HSTS0213HSLR114		106,240
HSTS0208HSLR0320		20,269
HSTS0213HSLR727		49,840
HSTS0208HSLR0327		11,594
HSTS0213HSLR732		57,355
HSTS0208HSLR0093		11,652
HSTS0213HSLR730		54,977
Total CFDA 97.090		<u>1,788,565</u>
Transportation Security Administration – Airport Checked Baggage Inspection System Program:		
HSTS04-09-H-REC157 (ARRA)	97.117	1,584,267
Total CFDA 97.117		1,584,267
National Explosives Detection Canine Team Program:		
HSTS0208HCAN423	97.072	115,772
Total federal expenditures		<u>\$ 29,585,639</u>

See accompanying independent auditors' report on compliance for each major federal program; report on internal control over compliance; and report on schedule of expenditures of federal awards as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and notes to schedule of expenditures of federal awards.

**DEPARTMENT OF TRANSPORTATION
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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Airports Division, Department of Transportation, State of Hawaii. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Basis of Accounting

The accompanying schedule is prepared on the accrual basis of accounting.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree in all material respects with the amounts reported in the related federal financial reports.

**DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION
STATE OF HAWAII**
(An Enterprise Fund of the State of Hawaii)
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None noted**

Material weaknesses: **None reported**

- (c) Noncompliance that is material to the financial statements: **None noted**
- (d) Significant deficiencies in internal control over major program: **None noted**

Material weaknesses: **None reported**

- (e) The type of report issued on compliance for major program: **Unmodified opinion**
- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, see item 2013-001**
- (g) Major programs:

CFDA No. 20.106 – U.S. Department of Transportation – Federal Aviation Administration – Airport Improvement Program

CFDA No. 97.117 – U.S. Department of Homeland Security – Transportation Security Administration – Airport Checked Baggage Inspection System Program (ARRA)

CFDA No. 97.090 – U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$887,569.**
- (i) Auditee qualified as a low risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

None noted

DEPARTMENT OF TRANSPORTATION
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Schedule of Findings and Questioned Costs
Year ended June 30, 2013

(3) Findings and Questioned Costs Relating to Federal Awards

2013-001 – Cash Management – Requests for Reimbursement

Information on Federal Programs

U.S. Department of Homeland Security – Law Enforcement Officer Reimbursement Agreement Program – CFDA No. 97.090

Federal Awards No.:

HSTS0208HSLR082

Award Year: October 1, 2011 to September 30, 2012

Specific Requirements/Criteria

The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3 C, *Cash Management* states that “*When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.*”

Condition

Out of a sample of 25 reimbursement requests, we identified 1 instance where, although the Airports Division had submitted the request for payment of the invoice to the State of Hawaii (the State), the reimbursement request was submitted prior to the invoice being paid by the State. However, the reimbursement was received subsequent to the invoice payment.

Cause

The above condition was primarily caused by insufficient coordination with the fiscal office and the program manager, and the internal controls were not effectively designed to ensure the reimbursement request was submitted subsequent to the invoice payment date, not the request for invoice payment date.

Effect

By submitting the reimbursement requests prior to the program costs being paid, the Law Enforcement Officer Reimbursement Agreement Program is not in compliance with OMB Circular A-133 and also jeopardizes its ability to receive the reimbursement payments from the U.S. Department of Homeland Security.

Questioned Costs

None

DEPARTMENT OF TRANSPORTATION
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Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Systemic or Isolated

Systemic

Recommendation

We recommend that the Airports Division management enhance internal controls over the cash reimbursement process to ensure that the invoices are paid prior to submitting the reimbursement request.

Views of Responsible Officials and Planned Corrective Action

The Airports Division will immediately enforce an action plan to ensure the recommendation is implemented by the responsible Airport personnel.